an entitlement commission, has produced its work early in the year, and it says in that report that within the decade the United States will exhaust all of its resources. Every dime of this huge country will be consumed by just five things: Social Security, Medicare, Medicaid, Federal retirement, and the interest on our debt, and there is nothing left.

What would we do if there is a Balkans war then? How would we build our roads? Defend ourselves? Nothing left, after these five expenditures. This balanced budget, that America knows in its heart we have to have, corrects that problem. It does not allow the Nation to run into that wall.

Some people, I think, who have listened to the debate, think that balancing our budget is a very painful exercise. Not only does balancing our budgets immediately begin to set the right path for our children and grandchildren and for the new century, but every living American begins to benefit immediately. The rainbow that comes from balancing these budgets happens right now. Interest rates fall, so the average family saves $1,000 a year paying their home mortgage. They save on their car loan. They save on their student loans. They save if they build an addition to the house.

The tax reductions benefit all families raising children. The average American family, if this balanced budget that we propose becomes law, finds 2,000 to 3,000 new dollars in their checking account to help that family raise, educate, feed, house, and provide for the health of their family. That is what happens. And it does not happen way off in the future. It happens tomorrow. We are already benefiting. Just the discussion of balancing the budget for the first time in 30 years has affected our economy positively. But there is more to come.

It is beyond me how anybody, the President or any of his colleagues, would deny all America the benefits of managing our financial affairs. I do not understand it. It is a punishing blow to American families because it will push their interest rates up. It will slow the economy. When you do not balance your budget it is tougher to find a job. It is harder to start a business. They cannot get the capital that is being consumed by a voracious Federal Government that will not pay attention to its own financial affairs.

So, just to repeat, and I will yield: A promise to the American people by the President that we can balance the budget in 5 years—he totally ignored it. A promise to the American people that he would submit a balanced budget earlier this year—he ignored it and submitted one with deficits as far as the eye can see. And then a binding, intense promise made between the President and the Congress, to the American people, just before Thanksgiving, that we would both produce balanced budgets and we would both use honest numbers to do it—and he walked in the last hour, having done nothing since that promise was made and gave us two sheets of paper.

There was more time being spent producing the political ads than producing the balanced budget and that is a sad state of affairs.

Mr. President, I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BENNETT. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. COVERDELL). Without objection, it is so ordered.

TAX CUTS

Mr. BENNETT. Mr. President, I was in the Chamber last night when some rather harsh words were spoken on both sides of the center aisle and I said a few words myself in an attempt to, first, calm the atmosphere and, second, lift the cloud of obfuscation that seems to have fallen over the debate, after which it fell to my lot to assume the chair.

Some people think sitting in the chair is a great honor, and, of course, it is. But it is also a very good way of silencing one's voice, because when you are in the chair you are forbidden to speak or react or do anything other than to declare whether a quorum is or is not present, or inform errant Senators that they should please take their conversations to the Cloakroom—not the most edifying kinds of things to be able to say.

So I take the opportunity that today's circumstance gives me to offer a few more words in the ongoing debate about the balanced budget, in response to some of the things that were said last night.

I want to focus a little bit on the issue of the tax cuts. We were told last night that the most disgraceful part of the Republican attempt to balance the budget was that in our Balanced Budget Act we called for tax cuts. Disgraceful, we were told, when the public needs the money that you are going to cut in taxes.

Behind that statement lies one of the great misconceptions of this body, and frankly this Government and the various groups that advise this Government. It gives me an opportunity to get on one of my soap boxes that I have been on before. But I warn the Senate there is no such thing as repetition. You can give the same speech again and again and again and it is always treated as if it were new and, indeed, maybe the repetition is necessary. So I will launch, once again, into an attempt to set the record clear about tax cuts and the way they are viewed in Government.

We make the mistake in this Chamber and elsewhere of assuming that the Government's business is like a family income, where mother and dad sit around the kitchen table adding up the bills at the end of the month, scratch their heads, with very nervous looks on their faces, and say, ''We cannot make it. We must do one of two things. We must either increase our income by dad's getting a raise or mother working more hours at her part-time job, or somehow getting an inheritance from a rich uncle, or we must cut down our expenditures.''

It is a two-dimensional problem. We must either increase revenues, or we must decrease expenses. That is all there is to it. And we are told around here that the Government has only two choices to balance the budget. We must either raise taxes or cut expenditures. And the analogy sounds wonderful, and it is easy to understand. Every one who sat around the kitchen table worrying about the bills identified the limit. There is only one problem though. It is not reality. It does not conform to the way the world really works.

If I may switch the analogy, Mr. President, the Government is not like a family. The Government is like a business. And I have run some businesses. I have run some of them successfully, and I have run some of them unsuccessfully. Indeed, the lessons I learned from the business which failed under my hand were probably responsible for my ability to make some businesses succeed under my hand.

The business is not a two-dimensional circumstance. It is three. There are three things you can do if your business is not making enough money to cover its monthly bills.

First, yes. You can cut spending. You can cut your overhead. That corresponds with the family sitting around the table. You can say we do not need as many people as we have here. We do not need as fancy surroundings as we have rented. We can move into smaller quarters. You can do all kinds of things to cut your overhead and cut your expenses.

Second, raise revenues. In business that is called raising prices. In Government it is called raising taxes. In business it is called raising prices, except every good businessman and businesswoman knows that raising prices is a very dicey way to try to increase your income because there are customers out there that may not like it. There are customers out there that may say, ''Oh. If you are going to raise the price on your widgets, I am going to buy widgets from somebody else.''

I have increased the bottom line in businesses that I have run by raising prices. It is a wonderful way to do it. It is painless. If the customer will, indeed, pay the increased price. In business we have a phrase we call price sensitive. That is a fancy way for saying we do not dare raise the price on this product because, if we do, nobody will buy it. But, if you have a hot product, if you have something everybody wants, it is not particularly price sensitive and you can increase your income 10 percent by raising your prices

10 percent. And that is clearly the easiest way to do it.

Sometimes, however, Mr. President, businessmen know that they can increase their profits the third way, which is increase sales, cause the business to grow bigger than it is. And increasing sales sometimes comes from—wonder of wonders—increasing overhead. Oh, how can you do that? Well, you can buy an ad for one. You can put something on television telling people about your product. That is increasing your overhead but, if it increases your sales by significantly more than the overhead, it is the wise thing to do.

You can increase your overhead by hiring additional salesmen who will go out and hawk your wares, and thereby cause the business to grow. Or, for many businessmen, the answer is cutting prices. Cutting prices—not increasing prices—many times is the road to success and profit.

Look for just a moment, if you will, Mr. President, at the fastest growing portion of the economy which is the computer driven portion. What has happened to prices of computers? I will give you a rather graphic example.

When I was once president—or actually chairman of the board, a fancy title; the company did not have any money; so they gave me a big title rather than a big salary—of a company that produced computers. We had two that we offered for sale. One, it was a dual-floppy disk computer. We sold it for $3,300. The other was a 10-megabyte hard disk computer which we sold for $30,000. We sold every one we could produce literally in a garage. Yes. This was one of those stories of a computer company that started in somebody's garage. We produced them in a garage, and every one we could produce we could sell immediately, there was enough demand for it.

People would say, ''Gee. You are in the computer business. IBM dominates the computer business.'' With great foresight I said, ''IBM does not understand small computers. They only make mainframes. This is a business that will be reserved to us alone.''

Today for under $2,000 you can buy a computer that has 40 megabytes of hard disk connected with it. A color monitor connected to it in a laptop makes the thing we produce—it was about the size of a good washer-dryer set with these 10 megabytes of hard disk, and it sold for $30,000, under everybody else. Now you can buy something that is so much better than that, and there is no comparison at all, for a fraction of the cost we used to charge.

If the people in the computer industry had been Government-oriented in their pricing, they would have said, ''Gee. Mr. BENNETT, you are not making any money with that $30,000 computer. The solution is to raise your prices'' when the folks at Apple down the street understood that the solution was to cut the prices.

Well, what does this have to do with the debate we are having here? Simply this: That all of the figures we are throwing back and forth around this Chamber about cutting taxes $240 billion, raising taxes $28 billion, and so on, are ignoring the fact that there are customers out there who will react to the new prices on Government service by changing their behavior just the way they are customers for products.

An interesting article appeared in the Wall Street Journal about a month ago. I am going to dig it out and put it in the RECORD. Marty Feldstein, a respected economist, went back and did something we never do in Government. He analyzed the Clinton tax increase 3 years after it was put in place to see what happened. He came up with the most astounding fact, Mr. President. The Clinton tax increase yielded in revenue one-third of the amount of revenue that was projected at the time it was passed.

We debated back and forth on this floor. And we were told again and again that we must have this tax increase to cut the deficit, and it will cut into the deficit x billion dollars. Now, 3 years later, the good economist Dr. Feldstein, has looked at it, and said, ''Do you know what? You raised the taxes x amount, and you got one-third x in revenue.''

We never look at that around here. We never pay any attention to that. We are like the businessman who says, ''I will raise my prices, and my revenue will come in without any question,'' and then discovers that the customers do not buy it.

Mr. President, I ask unanimous consent that the the article in the Wall Street Journal by Martin Feldstein be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From The Wall Street Journal, Oct. 26, 1995]

BOARD OF CONTRIBUTORS: WHAT THE '93 TAX INCREASES REALLY DID

(By Martin Feldstein)

President Clinton was right when he recently told business groups in Virginia and Texas that he had raised taxes too much in 1993, perhaps more so than he realizes. We now have the first hard evidence on the effect of the Clinton tax rate increases. The new data, published by the Internal Revenue Service, show that the sharp jump in tax rates raised only one-third as much revenue as the Clinton administration had predicted.

Because taxpayers responded to the sharply higher marginal tax rates by reducing their taxable incomes, the Treasury lost two-thirds of the extra revenue that would have been collected if taxpayers had not changed their behavior. Moreover, while the Treasury gained less than $6 billion in additional personal income tax revenue, the distortions to taxpayers' behavior depressed their real incomes by nearly $25 billion.

To understand how taxpayer behavior could produce such a large revenue shortfall, recall that the Clinton plan raised the marginal personal income tax rate to 36% from 31% on incomes between $140,000 ($115,000 for single taxpayers) and $250,000 and to 39.6% on all incomes over $250,000. Relatively small reductions in taxable income in response to these sharply higher rates can eliminate most or all of the additional tax revenue that would result with no behavioral response.

If a couple with $200,000 of taxable income reduces its income by just 5% in response to the higher tax rate, the Treasury loses more from the $10,000 decline in income ($3,100 less revenue at 31%) than it gains from the higher tax rate on the remaining $50,000 of income above the $140,000 floor ($2,500 more revenue at 5%); the net effect is that the Treasury collects $600 less than it would have if there had been no tax rate increase.

Similarly, a couple with $400,000 of taxable income would pay $18,400 in extra taxes if its taxable income remained unchanged. But if that couple responds to the nearly 30% marginal tax rate increase by cutting its taxable income by as little a 8%, the Treasury's revenue gain would fall 67% to less than $6,000.

How can taxpayers reduce their taxable incomes in this way? Self-employed taxpayers, two-earner couples and senior executives can reduce their taxable earnings by a combination of working fewer hours, taking more vacations, and shifting compensation from taxable cash to untaxed fringe benefits. Investors can shift from taxable bonds and high yield stocks to tax exempt bonds and to stocks with lower dividends. Individuals can increase tax deductible mortgage borrowing and raise charitable contributions. (I ignore reduced realization of capital gains because the 1993 tax rate changes did not raise the top capital gains rate above its previous 28% level.)

To evaluate the magnitude of the taxpayers' actual responses, Daniel Feenberg at the National Bureau of Economic Research (NBER) and I studied the published IRS estimates of the 1992 and 1993 taxable incomes of high income taxpayers (i.e., taxpayers with adjusted gross incomes over $200,000, corresponding to about $140,000 of taxable income). We compared the growth of such incomes with the corresponding rise in taxable incomes for taxpayers with adjusted gross incomes between $50,000 and $200,000. Since the latter group did not experience a 1993 tax rate change, the increase of their taxable incomes provides a basis for predicting how taxable incomes would have increased in the high income group if its members had not changed their behavior in response to the higher post-1992 tax rates. We calculated this with the help of the NBER's TAXSIM model, a computer analysis of more than 100,000 random anonymous tax returns provided by the IRS.

We concluded that the high income taxpayers reported 8.5% less taxable income in 1993 than they would have if their tax rates had not increased. This in turn reduced the additional tax liabilities of the high income group to less than one-third of what they would have been if they had not changed their behavior in response to the higher tax rates.

This sensitivity of taxable income to marginal tax rates is quantitatively similar to the magnitude of the response that I found when I studied taxpayers' responses to the tax rate cuts of 1986. It is noteworthy also that such a strong response to the 1993 tax increases occurred within the first year. It would not be surprising if the taxpayer responses get larger as taxpayers have more time to adjust to the higher tax rates by retiring earlier, by choosing less demanding and less remunerative occupations, by buying larger homes and second homes with new mortgage deductions, etc.

The 1993 tax law also eliminated the $135,000 ceiling on the wage and salary income subject to the 2.9% payroll tax for Medicare. When this took effect in January 1994, it raised the tax rate on earnings to 38.9% for taxpayers with incomes between $140,000 and $250,000 and to 42.5% on incomes above

$250,000. Although we will have to wait until data are available for 1994 to see the effect of that extra tax rate rise, the evidence for 1993 suggests that taxpayers' responses to the higher marginal tax rates would cut personal income tax revenue by so much that the net additional revenue from eliminating the ceiling on the payroll tax base would be less than $1 billion.

All of this stands in sharp contrast to the official revenue estimates produced by the staffs of the Treasury and of the Congressional Joint Committee on Taxation before the 1993 tax legislation was passed. The estimates were based on the self-imposed ''convention'' of ignoring the effects of tax rate changes on the amount that people work and invest. The combination of that obviously false assumption and a gross underestimate of the other ways in which taxpayer behavior reduces taxable income caused the revenue estimators at the Treasury to conclude that taxpayer behavior would reduce the additional tax revenue raised by the higher rates by only 7%. In contrast, the actual experience shows a revenue reduction that is nearly 10 times as large as the Treasury staff assumed.

This experience is directly relevant to the debate about whether Congress should use ''dynamic'' revenue estimates that take into account the effect of taxpayer behavior on tax revenue. The 1993 experience shows that unless such behavior is taken into account, the revenue estimates presented to Congress can grossly overstate the revenue gains from higher tax rates (and the revenue costs of lower tax rates). Although the official revenue estimating staffs claim that their estimates are dynamic because they take into account some taxpayer behavior, the 1993 experience shows that as a practical matter the official estimates are close to being ''static'' no-behavioral-response estimates because they explicitly ignore the effect of taxes on work effort and grossly underestimate the magnitude of other taxpayer responses.

If Congress had known in 1993 that raising top marginal tax rates from 31% to more than 42% would raise less than $7 billion a year, including the payroll tax revenue as well as the personal income tax revenue, it might not have been possible for President Clinton to get the votes to pass his tax increase.

Which brings us back to President Clinton's own statement (half-recanted the next day) that he raised taxes too much in 1993. Congress and the President will soon be negotiating about the final shape of the 1995 tax package. The current congressional tax proposals do nothing to repeal the very harmful rate increases of 1993. Rolling back both the personal tax rates and the Medicare payroll tax base to where they were before 1993 would cost less than $7 billion a year in revenue and would raise real national income by more than $25 billion. Now that the evidence is in, Congress and the President should agree to undo a bad mistake.

Mr. BENNETT. I suggest to you, Mr. President, that we need to pay close attention to what happens when tax rates are cut. It is the same thing that happens to a well-run business when prices are selectively and intelligently cut on certain products. If we cut the tax rate on capital gains, which is where most of the heat is coming from on the other side of the aisle, I am willing to bet a fairly substantial amount of money that we will see Government revenue from capital gains go up and not down.

Is not that what we are after? We want to balance the budget. We want more revenue, do we not? We ought to do that which will bring in more revenue. And the way to bring in more revenue is to cut prices on the products that are slow moving.

I tell you, Mr. President. Ever since we raised prices on capital gains by increasing the capital gains rate, the Government revenue from capital gains has been going steadily down. And any decent business person will tell you we made a mistake with that price increase.

We ought to cut the price back to where it was before, and people will start buying our widgets again. We ought to cut the capital gains tax rate back down to where it was before. I will tell you the figure that I will settle for, Mr. President. I will settle for the figure on capital gains proposed by John F. Kennedy, President of the United States. He wanted a capital gains rate lower than the one we are paying today and nobody accused him of trying to throw widows and orphans out into the street, or little children being driven away from their school lunches when John Kennedy proposed a cut in the capital gains tax rate. His cut was passed. And what happened when they cut prices on that particular governmental service? The revenue from capital gains went up.

What is the objection? As nearly as I can tell, the only objection to the Government getting more money from people who have capital gains is that the people who have capital gains are supposedly the wealthy. I will not argue with whether they are the wealthy or not. We can do that at another time. And there are plenty of charts to indicate that that is not the case.

The point I am making is this. If I am a businessman and I wish to increase my bottom line, I really do not ask whether or not the customers who are benefited from my cutting prices are rich or poor. I really do not care. All I want is enough money to keep my doors open. I do not think the Government ought to really care whether the people who benefit from a capital gains tax cut—in the rate—are rich or poor as long as the Government gets more money.

I was not sent here by the voters of Utah to punish or reward. I was sent here to balance the budget, and one of the ways I balance the budget is to get more revenue to the Government. And one of the ways I get more revenue to the Government is to cut the prices on capital gains transactions so that more people will do more of them and the economy will grow and the Government will get more money.

So I say to those who are hung up about tax cuts and tax increases and who we are hurting and who we are helping, will you change your focus just a minute and ask who you are here to represent and what your assignment is. Your assignment is to get the Government's fiscal affairs in order, and if that is done everybody benefits. And if in the process of getting more revenue into the coffers you happen to help somebody who probably does not need help in terms of his own personal financial circumstances, do not let that bother you. Go ahead, take his money anyway. Go ahead, balance the budget anyway, even if somebody who is rich now happens to benefit by the fact that you are balancing the budget and making life more secure for everybody else. Look the other way and take his money anyway. If we did that around here, I think we move toward solving the problem.

I thank the Chair for his patience. I realize this is not the most stimulating conversation in the world because we are here, frankly, waiting on a group of negotiators to try to solve their problems. And the only comment I would give to them would be this one. You have made your point. You have shown how tough you are. You have shut the Government down. Everybody knows you are powerful. Will you please start to negotiate, having made your point, and let us get on with it.

Mr. President, I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. WARNER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. BENNETT). Without objection, it is so ordered.

BUDGET NEGOTIATIONS

Mr. WARNER. Mr. President, I have personally been heartened by the signs of progress we have witnessed since the budget crisis and the Government shutdown the week before Thanksgiving. The Congress and the White House have been at the bargaining table. Additional appropriations bills have been signed into law, and new estimates from the Congressional Budget Office have offered the promise of greater flexibility. I thought these new estimates would have provided the flexibility in setting our budget priorities, and yet we are again faced, unfortunately, with the prospect of a gridlock. Indeed, it is taking place as I am privileged to address the Senate this afternoon.

The congressional leadership has been deeply disappointed with the lack of a substantive balanced budget from the White House, that is, the Republican congressional leadership. Promises in good faith have been made for 25 days under the last continuing resolution only to have unworkable solutions presented in the 11th hour by the President and his representatives. The Republican leadership, if it is to remain true to its pledge to the American people to balance the budget, has been left with little choice. The Congress and the White House agreed that a 7-year balanced budget plan based on CBO numbers would at least be agreed upon, and I was privileged to have been a